

MacMillan, Bloedel and Powell River Limited

Annual Report 1964

AR07





MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED

Head Office: 1199 W. Pender St., Vancouver 1, B.C.

DIRECTORS

Prentice Bloedel

*Retired - former Vice-Chairman, MacMillan
& Bloedel Limited*

Anson Brooks

*President, Powell River-Alberni
Sales Corporation*

F. H. Brown

*President, The White Pass and Yukon
Corporation Limited*

J. M. Buchanan

*Retired - former Chairman and Chief Executive
Officer, British Columbia Packers Limited*

The Honourable J. V. Clyne

*Chairman of the Board and Chief Executive Officer,
MacMillan, Bloedel and Powell River Limited*

Mark Collins

President, Smith Lithograph Company Limited

Gordon Farrell

Chairman, Ocean Cement & Supplies Ltd.

John Lecky

*Vice-President and General Manager,
Smith, Davidson & Lecky Limited*

H. R. MacMillan

*Retired - former Chairman,
MacMillan & Bloedel Limited*

E. S. McCord

*Partner, Kerr, McCord & Moen, Attorneys,
Seattle, Washington*

R. G. Miller

President, Fidelity Life Assurance Company

H. T. Mitchell

President, Mitchell Press Limited

R. M. Shaw

*Former Vice-Chairman,
MacMillan, Bloedel and Powell River Limited*

E. G. Shorter

*Vice-Chairman,
MacMillan, Bloedel and Powell River Limited*

S. G. Smith

*Retired - former Vice-President
and General Manager,
Bloedel, Stewart & Welch Limited*

G. T. Southam

President, Pioneer Envelopes Limited

C. A. Specht

*President, MacMillan, Bloedel
and Powell River Limited*

W. J. VanDusen

*Retired - former Vice-Chairman
MacMillan & Bloedel Limited*

Frederick Wilson

Investment Counsel

C. B. Wright, Jr.

Real Estate Development





OFFICERS

The Honourable J. V. Clyne
Chairman of the Board and Chief Executive Officer

E. G. Shorter
Vice-Chairman

C. A. Specht
President

G. D. Eccott
*Vice-President - Finance, and
Secretary of the Company*

L. G. Harris
*Vice-President and General Manager -
Pulp and Paper Group*

J. O. Hemmingsen
*Vice-President and General Manager -
Wood Products Group*

A. J. Gardner
Vice-President - Development

A. C. Kennedy
Vice-President - Industrial Relations

H. R. Chisholm
General Manager - Logging Group

H. V. Townsend
General Manager - Packaging Group

C. G. Chambers
Treasurer

T. P. Boyle
Corporate Controller

F. H. Britton
Corporation Solicitor

P. M. Downes
General Manager - Corporate Communications

R. D. MacFayden
Assistant Secretary

J. G. C. Cunningham
Assistant Secretary

EXECUTIVE COMMITTEE

The Honourable J. V. Clyne (*Chairman*)

Prentice Bloedel

F. H. Brown

H. R. MacMillan

R. G. Miller

E. G. Shorter

C. A. Specht

W. J. VanDusen

REGISTRARS AND TRANSFER AGENTS

The Royal Trust Company, Vancouver

The Canada Trust Company, Montreal, Toronto, Winnipeg

AUDITORS

Price Waterhouse & Co., Vancouver



Summary of Significant Facts

	Year Ended December 31 1964*	Year Ended December 31 1963
EARNINGS		
Income		
Sales of Products and Services	\$409,564,544	\$346,515,635 / 7.2
Other Income	3,744,296	2,852,708
Total Income	\$413,308,840	\$349,368,343
Earnings before Income Taxes	\$ 79,798,766	\$ 72,322,517
Net Earnings after Income Taxes		
Amount	\$ 41,440,597 ^{10.12}	\$ 36,660,068 ^{10.58} 13.0
Per Share	\$ 1.99	\$ 1.76
Net Earnings after Current Income Taxes but before providing for Deferred Income Taxes		
Amount	\$ 46,999,662 ^{11.486}	\$ 43,146,969 ^{12.454} + 8.9
Per Share	\$ 2.25	\$ 2.07
Charge for		
Depreciation	\$ 22,856,227	\$ 17,277,770
Depletion	2,936,305	2,432,698
Amortization of Logging Roads	3,214,897	2,776,185
	<u>\$ 29,007,429</u>	<u>\$ 22,486,653</u>
Earnings Retained in Business at end of year	\$132,807,240	\$116,382,149
CAPITAL EXPENDITURES	\$ 78,439,712	\$ 47,119,433
DIVIDENDS		
Cash		
Amount	\$ 20,846,255	\$ 20,831,255
Per Share	\$ 1.00	\$ 1.00
Stock		
Amount	\$ 4,169,251	—
Per Share	\$.20	—
EMPLOYEES		
Wages, Salaries and Employee Benefits	\$ 89,500,618	\$ 81,724,493
Number at end of year	14,360	13,430
SHAREHOLDERS		
Number at end of year	20,597†	18,909†

* Statistics and charts throughout this report conform to the Financial Statements (see Note 1).

† Excluding holders of share warrants.

Preceding pages: Night view of the Company's pulp and paper mill at Port Alberni.

Report of the Directors

TO THE SHAREHOLDERS: MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED

The Company enjoyed on the whole a very satisfactory year. Sales and earnings increased, reflecting the buoyant economies prevailing on this continent and in many other parts of the world. The financial statements also indicate the results which are beginning to be felt from the expansions at Port Alberni and Harmac which were completed about a year ago. The steady growth of the Company is apparent from the figures contained in the Historical Review which is appended to this report.

Sales and other income for 1964 were \$413,308,840, an increase of \$63,940,497 or 18% over the previous year. The Consolidated Net Earnings amounted to \$41,440,597, an increase of \$4,780,529 or 13% over the 1963 figure of \$36,660,068. This result was after charging \$29,007,429 for depreciation, depletion and amortization, as compared with \$22,486,653 in 1963.

The profit of the Company is higher than ever before, but this is not due to fortuitous circumstances nor to any particular benefit received from outside sources. During the formative years in the early part of the century the predecessor companies took substantial risks in capital investment in the demonstration of their faith in the future of British Columbia. Large timber tracts were acquired from private owners, and heavy investments were made in manufacturing facilities, with little prospect of immediate return, but with full anticipation of profitable operations in the future. Minimum dividends were paid to their shareholders, and profits were largely devoted to further development. In recent years the Company has continued to expend very substantial sums in new projects, and this policy will continue to redound to the benefit of the Company and the provincial economy. During the period 1950 to 1964 inclusive the Company has spent some \$500 million in capital expenditure, and an improvement in profit was therefore to be expected.

There would have been a further improvement in both production and profit this year had there not been two serious interruptions to the Company's operations, both in the Alberni area. The first was the tidal wave resulting from the earthquake in Alaska, which occurred in the early morning of March 28th and did considerable damage to the Company's operations. While the loss was covered by insurance, it was many days before full production could be resumed. The second was a strike called by the Office Employees International Union involving 64 persons, which developed into a seven-week closure of all the Company's manufacturing plants in the area. Further reference to this matter is made later in this report under the heading of Labour Relations, but so far as

production was concerned it affected the Pulp and Paper Group, the Wood Products Group and the Logging Group, since all three groups have operations in that area, and accordingly shared in the loss of production that ensued.

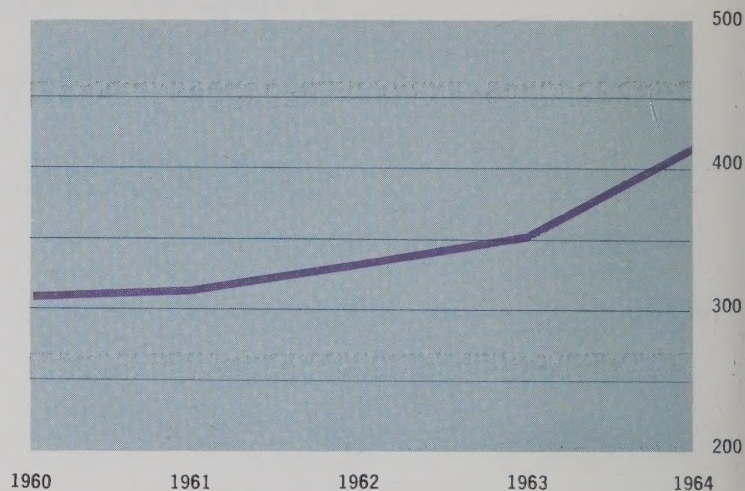
Production figures for the year compared with the previous year were as follows:

PRODUCT	UNIT	1964	1963
Logs	(M FBM)	1,207,872	1,156,260
Lumber	(" ")	915,206	804,102
Plywood	(M Sq. Ft. $\frac{3}{8}$ ")	374,036	372,054
Shingles	(Squares)	452,002	449,323
Newsprint	(Short Tons)	790,850*	689,296
Pulp	(" ")	483,773	368,152
Kraft Paper and Paperboard	(" ")	159,683*	159,635
Fine Paper	(" ")	14,482	12,089
Corrugated Containers	(M Sq. Ft.)	679,291	665,240

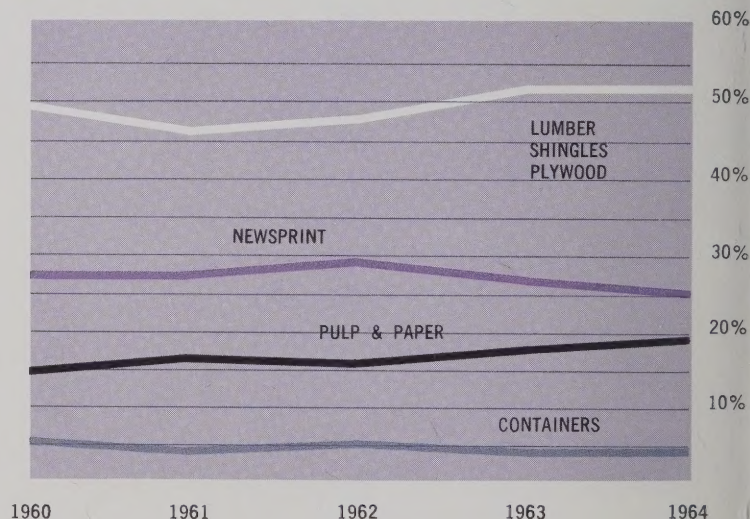
* Includes tonnage purchased during strike.

The accompanying charts show the growth of the sales of the Company, and the contribution by products and by markets expressed as a percentage of total sales.

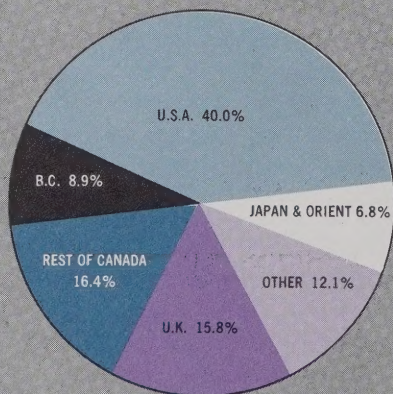
SALES OF PRODUCTS AND SERVICES millions of dollars



PERCENTAGE CONTRIBUTION TO SALES BY PRODUCTS



1964 SALES BY MARKETS



1963 SALES BY MARKETS

U.S.A.	42.1%
B.C.	9.2%
JAPAN AND ORIENT	6.7%
REST OF CANADA	18.5%
U.K.	12.7%
OTHER	10.8%

Dealing with the operations of the Company, the following is a review of the activities of the different groups:

LOGGING GROUP

Severe weather conditions during the year in the spring and winter months, accompanied by heavy snowfalls caused some of the operations to close down for several weeks at a time. In fact, at one time during the winter not a single logging division was able to operate. This is unusual, as the logging operations of the Company, by careful selection of high and low areas, are planned to continue throughout the year. Notwithstanding these interruptions, production of logs was higher than in the previous year. In addition to the Company's own production, logs in a volume of 265 million feet log scale were purchased on the open market for the Company's converting plants. Log prices continued to rise due to the strong demand, as will be seen from the following average prices of all species traded on the Vancouver log market over the last five years:

	Per thousand feet log scale
1960	\$47.38
1961	46.10
1962	48.35
1963	53.15
1964	63.25

It is interesting to note that in 1932 the average selling price of logs on the Vancouver log market was \$9.10 per 1000 feet log scale, and the price has risen steadily ever since that date.

The Company maintained its policy of supporting the independent logger by continuing to buy on the open market, and by employing 176 independent contractors in its operations.

Production costs increased by 12% over 1963. Unfavourable weather conditions, increased wages, higher stumpage rates and property taxes all contributed to this result.

Stumpage rates on Crown timber have risen sharply in recent years, the following being the average rates payable by this Company to the Provincial Government for Crown timber held under Tree Farm Licences:

	Per thousand feet log scale
1962	\$ 4.79
1963	6.09
1964	10.69
1965 (estimated)	15.76

It will be noted that the average rate in 1964 was 76% over 1963. In 1965 it is estimated that the rate will be about two and one-half times that of 1963.

Taxes on timberlands are also increasing year by year, and the indications are that taxes in 1965 on a comparable basis will show an increase of 30% over the \$1,800,000 paid in the previous year.

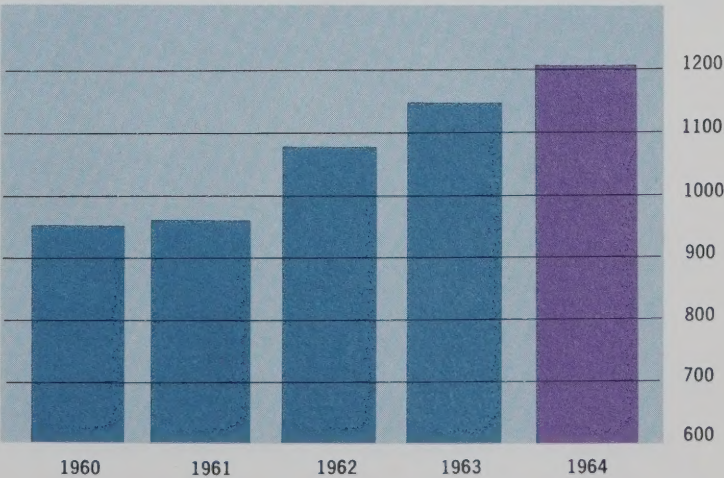
The total stumpage and royalties, timberland taxes and rentals paid to the Provincial Government, which amounted to almost \$6 million in 1964, are expected to reach nearly \$10 million in 1965, part of the increase being due to the recent purchases of timber.

The majority of the work force in logging operations now lives in nearby communities. During the year a beginning was made on a program for the development of community townsites near operations at Kelsey Bay and Port Hardy in the northern part of Vancouver Island, and Port Clements on Masset Inlet, Queen Charlotte Islands, where bunkhouses are still in use. This is part of the plan of the Company to improve the living conditions of employees so that they can live in permanent homes rather than being isolated from their families in Company living quarters. Clearing of sites and installation of services are now under way at these operations, and new homes are under construction at Kelsey Bay.

During the year a new logging operation was opened at Squamish at the head of Howe Sound, approximately 40 miles north of Vancouver on the Mainland. The capital cost was about \$2 million for roads, buildings and equipment. The timber, which is held in the form of timber licences owned by the Company, is not subject to any restriction by way of annual allowable cut, and does not form part of any Tree Farm Licence. Therefore it can be used as the Company finds it necessary to meet its requirements at any particular time.

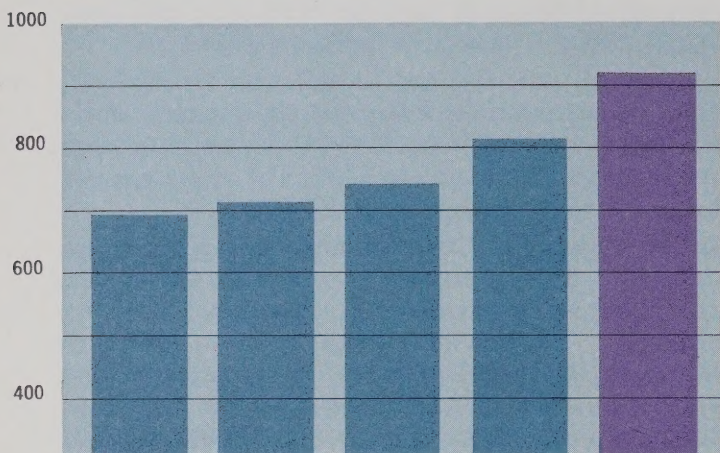
Logs

production, million board feet



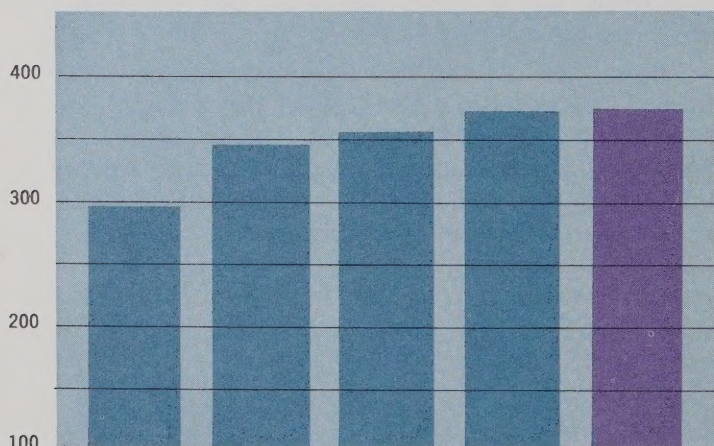
Lumber

production, million board feet



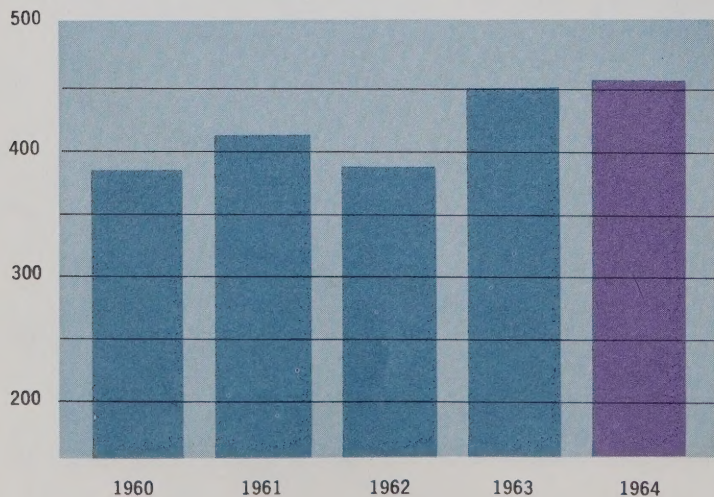
Plywood

production, million square feet ($\frac{3}{8}$ "



Shingles

production, thousand squares



Excluding purchases of timber and construction of roads, the capital expenditure of the Logging Group for 1964 amounted to over \$5 million, covering logging buildings and equipment and additions to the tug fleet. In the last three years portable spar trees and mobile log loaders have brought about wide changes in logging methods. The Company is now fully equipped in this respect, and an increasingly favourable effect on logging costs is expected.

The program for public access to the Company's timberlands resulted in over 50,000 hunters, fishermen and others using over 2,600 miles of Company roads for recreational purposes during periods when the roads were not in commercial use.

FORESTRY

The intensive forestry program to increase the sustained yield from the Company's timberlands which commenced in 1963, was extended in 1964 to cover additional logging divisions. Over 27,000 acres were treated, as against roughly half that acreage in the previous year, the program including reforestation, spacing, thinning, alder and brush control, and spraying. Planting and seeding were carried out on an intensified scale, and over 3,800,000 trees were planted.

The fire hazard in the woods was extremely low, due to a cool, wet summer. Forest Industries Flying Tankers Limited, in which the Company has a major interest, had a comparatively uneventful year. A second Martin Mars machine has been put in first-class operational condition, and these two immense flying boats, one of which can drop 6,000 gallons of water at one time, and the other 4,800 gallons, stand ready with a small spotter plane to lead the way, fully equipped for instant action in case of emergency. In past years severe losses have been caused by forest fires, and the utmost vigilance must be maintained at all times.

WOOD PRODUCTS GROUP

LUMBER Markets were generally strong, and record shipments at higher average prices than in 1963 resulted in a very satisfactory year. Some slowness was experienced in mid-year in the U.S.-Atlantic Coast market as well as the Japanese market, but fortunately the United Kingdom, the European Common Market, the African and the Australian markets were active at the time, enabling shipments to be made where demand developed.

The efforts of the B.C. Government Mission to the United Kingdom in 1963 following the visit of the U.K. Housing Mission to Canada early in that year, and later the visit of the U.K. Home Builders' Mission in 1964 appear to have stimulated a great deal of interest in England in wood-frame form of construction for houses because of the simplicity and speed with

which the houses can be built. The great need for housing in the United Kingdom and the encouraging reception for this type of construction hold promise for increasing exports of both lumber and plywood.

Shipments to the United States by sea and rail were heavy during the first part of the year, but fell off during the third quarter, with some renewed strength becoming evident in the winter months.

The Western Canadian lumber producers as from 30th June next will grade-mark all dimension lumber, namely lumber 2 inches in thickness and over, for the U.S.A. market. This must not be confused with the marking of lumber with the country of origin, which was the subject of controversy in prior years. The present move is essentially for the purpose of ensuring that grades of lumber are used in the building trade for the purposes for which they are most suitable, according to strength and quality, and illustrates the efforts of Western Canadian mills to co-operate with customers to the fullest extent.

Mill costs although subject to upward pressure through higher wages, were satisfactory in the circumstances, reflecting the benefits of high capital expenditures in recent years, as well as the maintenance of high standards of efficiency in the operations.

The contract with British Columbia Forest Products Limited under which MacMillan, Bloedel and Powell River Limited sells that Company's lumber and plywood, continues to the mutual satisfaction of both Companies.

PLYWOOD Shipments were in high volume, with plants running at capacity throughout the year, apart from the period of the strike at Port Alberni. Prices also held satisfactorily, domestic prices being a little lower than in markets outside of Canada. The Overseas markets were particularly strong, showing most satisfactory increases in volume, thus reflecting the promotional efforts in recent years. The introduction of the 15% import duty by the United Kingdom (to be reduced to 10% from 27th April 1965) did not curtail demand to any important degree. Manufacturing costs were satisfactory.

SHINGLES The U.S. market, to which the major part of the Company's production is shipped, was active in the spring but declined thereafter. Nevertheless apart from the periods of stoppage at Port Alberni the mills ran at capacity, and shipments to the United States, Canada and elsewhere were in good volume. Log prices were high, and converting costs also increased. The method of manufacture has remained essentially unchanged for many years, and provides limited inducement for capital expenditure on any important scale.

CAPITAL EXPENDITURE The capital expenditure of the Group was over \$4 million, which included \$1,300,000 on the expansion at Alberni Plywood Mill and \$2,300,000 on the Particleboard Plant in Vancouver, which will shortly commence production on a commercial basis. A new warehouse has been built at Winnipeg, with greatly increased facilities.

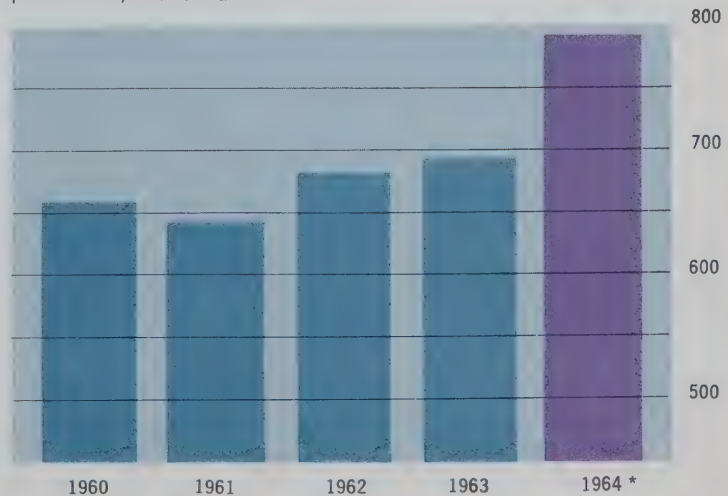
PULP AND PAPER GROUP

NEWSPRINT Newsprint sales were approximately 14% above the 1963 volume. Production exceeded that of the previous year, and compared favourably with the average industry operating rate of 86%. In order to maintain supplies to the publishers during the period of the tidal wave and the strike at Alberni, two of the older machines at Powell River were diverted from specialties to newsprint, and some tonnage was purchased from outside mills.

In November the Company announced a \$10 per ton reduction in the basic price of newsprint for customers in the United States and in Canada. This was the first official price reduction in the industry for thirty years. In actual fact, however, there had been growing erosion in the basic price, through concessions of various kinds, deliveries to customers' plants without extra charges, incentive arrangements, and participation in the manufacturing end of the industry through partnership between publishers and manufacturers. There was, moreover, increasing tonnage reaching the West Coast market from abroad for sale at prices lower than the prevailing levels of Pacific Coast mills. On the other hand publishers were confronted with growing competition from television and radio, as well as increasing costs. Very careful consideration was given by the Company to this situation in the long-term interests

Newsprint

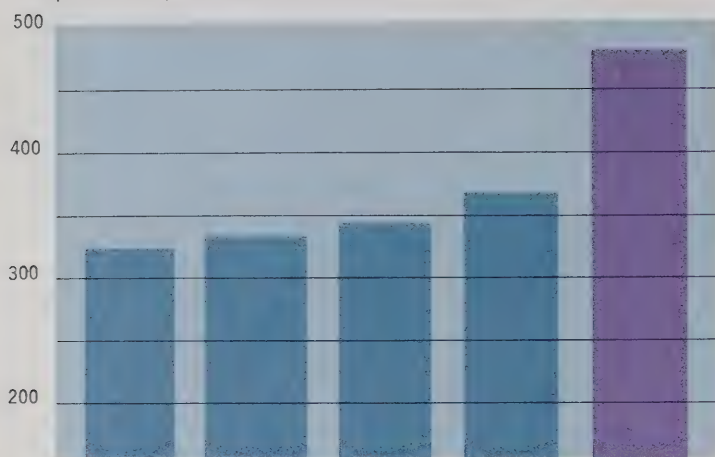
production, thousand short tons



* Includes tonnage purchased during strike

Pulp

production, thousand short tons



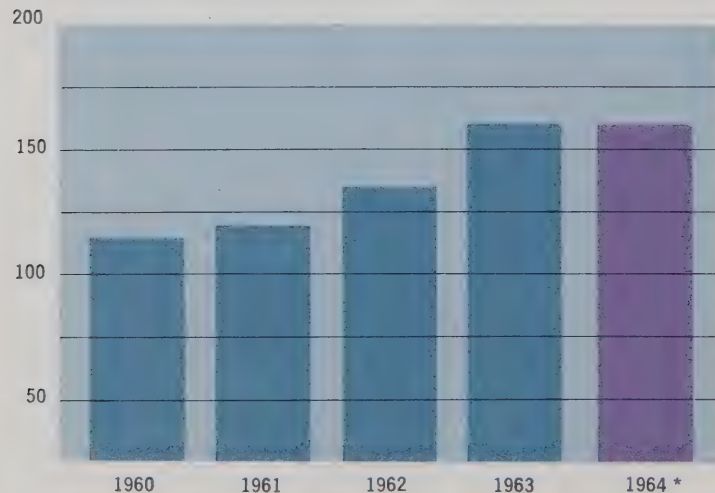
Fine Paper

production, thousand short tons



Kraft Paper and Paperboard

production, thousand short tons



* Includes tonnage purchased during strike

not only of itself but also of its customers. As a result it was decided that a reduction in the price was essential, and in retrospect management is satisfied that it was the right step to have taken. The sales outlook has improved considerably, and newsprint machines are expected to operate close to capacity in the current year, with good prospects ahead.

In line with the continuing endeavour to improve the quality of newsprint and groundwood specialties, extensive changes were made in the headbox and stock systems of Nos. 5 and 6 paper machines at Powell River, which together with other improvements there cost \$3,200,000.

The Alberni No. 5 Machine completed its first year of operation and is now producing at a high level despite the mechanical difficulties which were experienced early in the year.

PULP All pulp mills operated at a high rate of capacity. Shipments were up 28% over 1963 levels, largely due to the Harmac Mill expansion which came into operation at the end of the previous year. In response to strong demand higher prices applied in most markets during the year.

Work was commenced on a new \$2 million hog fuel burning boiler for Harmac which will be completed in October 1965 and which will increase the efficiency of the expanded facilities at Harmac for the manufacture of bleached and semi-bleached kraft pulp. At Alberni the kraft pulp expansion was completed in February of this year at a cost of \$600,000 below the \$13 million originally estimated in the 1963 report to the shareholders. This brings the capacity to produce unbleached market pulp at Alberni to 85,000 tons per annum.

FINE PAPER Further favourable market progress was made, with the result that shipments during the year were some 17% higher than in 1963. In response to demand an increasingly higher percentage of machine time is being given up to the manufacture of fine paper at the expense of lower grades, which have been diverted to other parts of the organization.

KRAFT PAPER AND PAPERBOARD Demand was strong throughout the year. At Alberni the kraft paper machine operated at capacity. At Burnaby shipments of paperboard, roofing felts and building paper were in good volume.

The imposition of the surcharge by the United Kingdom in November affected paper and paperboard. This caused some temporary confusion in the trade, and resulted in higher demand in the United Kingdom for boxes made from cheaper material including waste products. Generally however, demand has continued at a satisfactory level.

Work has commenced on a \$750,000 project to increase the capacity of the Alberni Kraft Machine by a further 10,000 tons per year by mid-1965.

At Burnaby Paperboard Division the mill operated on a seven-day week schedule for most of the year. The capacity was increased in 1964 by additional dryers, refiners, and a steam boiler.

PACKAGING GROUP

CORRUGATED CONTAINERS In Canada the sales volume increased, but profits declined due to lower prices attributable to intense competition and to higher costs. The Winnipeg Division moved into its new plant from the St. Boniface location in April. However, competition is extremely keen in that area, and this, together with the initial difficulties and cost of relocation, resulted in that plant having a less successful year than usual.

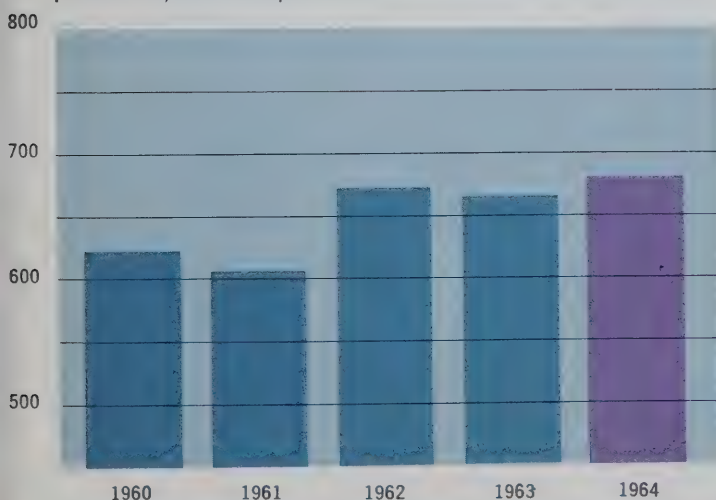
Completion of the new \$1,200,000 corrugating plant in Winnipeg, a \$200,000 expansion of the bag plant in Burnaby, coupled with the development of the new box plant in Burnaby at a cost of \$1,300,000, completed the modernization program undertaken by the Packaging Group. All divisions of the group in Canada are now housed in modern plants, equipped with up-to-date machinery.

The Packaging Development Department was expanded during the year, thereby enabling the group to provide better service to customers in package development, research, and surface design.

The Packaging Group in Canada consumed 58,418 tons of paper and board stock, of which 39,034 tons were supplied from the Company's own paper mills.

Corrugated Containers

production, million square feet



In the United Kingdom the two corrugated box companies purchased at the beginning of 1964 — Hygrade Corrugated Cases Limited, and Cooks Corrugated Cases Limited—had busy and successful years, although the imposition of the surcharge in November caused considerable disturbance in price levels. Hygrade is being expanded through the addition of a new corrugated box factory at Weston-super-Mare on the west coast of England, which is expected to come into production early in 1965. The construction of a further plant at Bishop Auckland in the north of England will shortly be commenced. These two plant expansions will cost over \$5 million, and reflect the Company's confidence in the future of the market in the United Kingdom.

FOLDING AND RIGID BOXES The move into the new plant located in Burnaby was completed in June 1964. The difficulty in obtaining highly trained technicians, combined with the costs of moving and the training of green crews, resulted in a disappointing financial year. The volume of sales was up despite the keen competition, and it is felt that this Division, which operates under the name of National Paper Box Limited, having overcome most of its initial difficulties, should now be able to develop satisfactorily.

BAG DIVISION The bag plant had a most successful year. Sales and profits increased. The expansion program was completed in 1964. High-speed three-colour printing was perfected during the year.

OTHER ACTIVITIES

DISTRIBUTION The Company's products were carried by ship, barge, rail and truck to the markets of the world, at a total freight cost of over \$72 million. Overseas shipments alone amounted to 1,900,000 long tons.

During the year the Company's Fraser River operations were connected by rail car barge across the river to the Canadian National Railway, thus giving these mills access to both the Canadian Pacific and Canadian National Railway systems.

SHIPPING The Company as one of its many activities conducts a general shipping business, and since a large part of its goods moves by water to the different markets of the world, freight rates are a matter of great importance and concern, as also the speed with which goods can be loaded on ship and discharged at destination.

Canadian Transport Company Limited, which is a wholly-owned subsidiary, charts oceangoing ships in the open market, usually for single voyages but occasionally for periods of up to three years. Where congestion or strikes occur at ports of discharge, serious

losses can be suffered by our customers through the delay in delivery of the goods, and losses can also be incurred by the charterers or by the shipowners through the delay occasioned to the ships.

Congestion in U.K. ports for some time has been very serious. Shipments of lumber from Russia, which are usually made in large volume over a comparatively short period, are a contributory factor, but the principal reason appears to be the reluctance of the stevedores to work overtime, and their general resistance to the introduction of the latest methods of handling goods. There have also been difficulties on the U.S. Atlantic Coast, to which this Company makes heavy shipments through the Panama Canal. A strike which had threatened for some time finally came to a head in January 1965, and lasted for over six weeks.

Generally speaking, freight rates have moved downward since the high levels of 1963 when the markets were stimulated by the heavy shipments of grain to Russia and China, enabling the movement of our products to overseas markets at cheaper rates. The charter markets apart from seasonal fluctuations have remained fairly steady. It is interesting to note that the tendency in recent years toward the construction of large bulk carriers has led to a scarcity of good smaller class ships, which give flexibility in shipping programs due to the small volumes of cargo, and the wide choice of ports at which they can call.

In order to develop a more efficient and less expensive method of transporting newsprint to California, it has been decided to transport about 40% of the Company's newsprint by way of tug and barge instead of by small ships of conventional design. The plan will entail construction of a powerful tug and two large barges specially designed so that goods can be loaded and unloaded with a minimum of difficulty or damage to the newsprint. Each barge will be 356 feet overall, capable of carrying 6,500 tons of newsprint. The cost is expected to be between \$2 and \$3 million, and contracts for the construction of the tug and barges are in course of completion.

CENTRAL ENGINEERING During the year the Department managed and supervised construction projects to a value of over \$27 million, including the kraft expansion at the Alberni Pulp and Paper Division, the new power boilers at Powell River and Harmac, and the Particleboard Plant at Burnaby.

CENTRAL PURCHASING The total purchases of operating materials and supplies handled by Central Purchasing amounted to approximately \$47 million in 1964. In addition, purchases of capital equipment were made for plant expansion purposes.

CAPITAL EXPENDITURES The total expenditure for the year amounted to \$78,439,712 as follows:

LOGGING AND FORESTRY

Purchase of timber including E&N Railway Company land	\$ 47,592,396
Modernization and expansion of logging facilities, including equipment for new camp at Squamish, additions to marine towing fleet, and \$4,116,213 on logging roads.	9,231,234

WOOD PRODUCTS

General improvements to mills, new Particleboard mill and expenditure on Alberni Plywood Division expansion	4,224,405
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PULP AND PAPER

Expansion projects at Port Alberni and Harmac, modernization at Burnaby Paperboard Division and Powell River Division	15,440,640
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PACKAGING

Expansion at Bag Division and Winnipeg Corrugated Box Division together with general improvements	1,280,666
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GENERAL

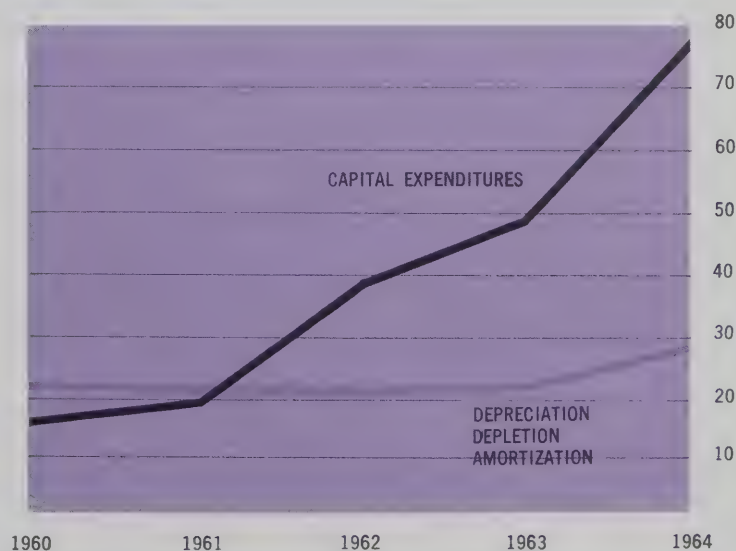
Other capital expenditure, including additional research facilities	670,371
	<u>\$ 78,439,712</u>

As will be noted, the Company made substantial additions to its timber holdings during the year. 141,390 acres of Crown grant timberland were purchased from the Canadian Pacific Railway Company for \$36 million payable in cash, in addition to which the Company assumed the obligation to pay to the Provincial Government severance tax of \$9 million over a ten-year period. This was the most important acquisition ever made in the history of the Company, and adds materially to the Company's already strong timber resource. The lands in question were part of the original Esquimalt and Nanaimo Railway Grant, and the purchase comprises the land in fee simple together with the timber. The various tracts which were purchased lie well within the Company's road system, and are close to the Company's converting plants.

Other important purchases of timber were made on the west coast of Vancouver Island.

Capital Expenditures

millions of dollars



FINANCE

The Company has continued the practice of creating a reserve for deferred income tax, which reserve at the date of the Balance Sheet stood at \$20,045,895. As has been pointed out in previous reports, the Company has taken advantage of the various allowances available for income tax purposes as incentives for new construction, the effect of which is to reduce the taxes in the current year, with a corresponding burden to be borne in the future. The sum which was set aside out of profits during the current year is \$5,559,065 as compared with \$6,486,901 in 1963.

In order to reflect a more accurate picture of its annual earnings, the Company this year adopted a straight-line method of charging depreciation instead of the reducing balance method which has been used since 1949. Straight-line depreciation is considered to be a sounder accounting method, and has been adopted by many of the larger companies in Canada since they have been free to do so under the income tax regulations. This change had no effect on the current tax liability, and makes no material difference to the net earnings for the current year.

In addition to the regular cash dividends at the annual rate of \$1.00 per share, the Company issued a stock dividend consisting of 4,169,251 redeemable preference shares of a par value of \$1.00, on the basis of one preference share for five ordinary shares held. This dividend which was tax-free in the hands of Canadian residents, was equivalent to 20 cents for each ordinary share in the Company. In October the Company offered to purchase all or any of the redeemable preference shares issued, and by the end of the year in this respect 3,163,904 shares were tendered and purchased.

While the Canadian dollar strengthened during the year, the average rates of exchange obtained on the sale of U.S. dollars and Sterling currency varied from the previous year to only an insignificant extent.

The three universities, the University of British Columbia, the new Simon Fraser University in Burnaby, and the University of Victoria on Vancouver Island, have made a combined appeal to raise \$68.7 million for capital expansion. The Provincial Government has undertaken to contribute \$40.7 million, and the balance is to be raised from the public over a five-year period. The Company, in view of its prominent position in British Columbia, and the importance to it of fully-trained university graduates now and in the future, has undertaken to donate the substantial sum of \$2,000,000 over the five-year period, of which \$400,000 was paid in 1964. The scale of the Company's contributions to charitable, educational, religious and other welfare projects compares very favourably with that of any other company in Canada.

DISTRIBUTION OF SHARES AS AT FEBRUARY 12, 1965

	Shares	Number of Shareholders
Canada	14,829,751	19,395
United States	5,018,209	1,433
United Kingdom	111,728	105
Elsewhere	155,210	159
	<u>20,114,898</u>	<u>21,092</u>
Share warrants	731,357	
Total	<u>20,846,255</u>	

In regard to share warrants it is estimated that 75% or 548,518 are held in the U.S.A. and 25% or 182,839 in Canada. The number of warrant holders is not known.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

For the year ended December 31 1964 (with a comparable statement for the preceding year)

SOURCES OF WORKING CAPITAL

	1964	1963
Net earnings	\$41,440,597	\$36,660,068
Non-cash charges in arriving at net earnings—		
Depreciation, depletion and amortization of logging roads	29,007,429	22,486,653
Deferred income taxes	5,559,065	6,486,901
Working capital generated from operations	76,007,091	65,633,622
Proceeds from sale of United States Treasury notes and bonds	2,529,328	191,873
Amounts released by trustee for bondholders	1,417,454	698,546
Proceeds from issue of ordinary shares	—	423,000
Other items (net)	—	90,024
	<u>79,953,873</u>	<u>67,037,065</u>

APPLICATIONS OF WORKING CAPITAL

Net additions to property, plant and equipment	78,439,712	47,119,433
Less—		
Financed by non-current liabilities	45,499,932	—
	<u>32,939,780</u>	<u>47,119,433</u>
Investments in subsidiary companies not consolidated	37,484,098	—
Cash dividends paid	20,846,255	20,831,255
Redemption of preference shares	3,163,904	—
Payments of, and current provision for, non-current liabilities	3,078,233	1,942,630
Other items (net)	111,781	—
	<u>97,624,051</u>	<u>69,893,318</u>
(Decrease) in working capital	(17,670,178)	(2,856,253)
Working capital at beginning of year	81,249,687	84,105,940
Working capital at end of year	<u>\$63,579,509</u>	<u>\$81,249,687</u>

LABOUR RELATIONS

A two-year labour contract effective June 15, 1964 covering logging, sawmill, plywood and shingle operations was negotiated with the International Woodworkers of America jointly with other employers. In addition to other minor adjustments, the contract provided for general wage increases of 15 cents per hour effective June 15, 1964 and 13 cents per hour effective June 15, 1965.

One-year labour agreements were also negotiated with the International Brotherhood of Pulp, Sulphite and Paper Mill Workers and the United Papermakers and Paperworkers representing employees in primary pulp and paper mills. The agreements provided for a 5% general wage increase effective July 1, 1964. Similar settlements were made with the United Papermakers and Paperworkers representing employees in Island Paper Mills and Burnaby Paperboard Divisions.

The strike called by the Office Employees International Union at our Alberni Pulp and Paper Division involving 64 persons resulted in a seven-week closure of all four of the manufacturing plants in Port Alberni, and loss of employment by approximately 4000 employees for that period. Members of the Industrial Unions refused to cross Office Employee picket lines set up at the four operating plants, in spite of the fact that their contracts with the Company contained "no strike" provisions.

The major issues of the dispute were union security, salaries and the question of which employees were to be included in the bargaining unit. The Union insisted upon a full union shop. The Company maintained the principle of freedom of choice, and refused to impose compulsory union membership on the office employees of Alberni Pulp and Paper Division as a condition of employment.

After nearly seven weeks of strike the Provincial Government intervened, and submitted proposals which were substantially the same as those offered by the Company, and which both parties finally accepted as a basis for settlement. The Company preserved the right of the office employee to decide whether he wanted to join a Union, but agreed to maintenance of membership provisions in the case of employees who did decide to join.

Nothing of any real importance was actually gained for its members by the Office Employees Union through this work stoppage, and the illegal sympathy strikes on the part of the hourly workers in the area led to a heavy loss of wages on the part of the employees themselves, and loss of production and profits by the Company. It was in fact a pointless strike, but costly to all concerned.

ACCIDENT PREVENTION Continued supervisory training, particularly in the field of job safety analysis, has proved to be a major factor in achieving an improved accident experience during 1964. The Westminster Shook Mill Division won the B.C. Lumber Manufacturers' Association individual sawmill award for 1964, having achieved a whole year free of accident. The Company's Sawmill group won the B.C. Lumber Manufacturers' Association award for the lowest accident frequency rate in British Columbia in 1964.

The Logging Group showed a most significant improvement, with a reduction of 14% in accidents involving loss of time. Nanaimo River Camp of Chemainus Division won the Logging Safety Award. With over 100 employees, this Division during the year had one accident only.

PERSONNEL PLANNING AND PLACEMENT Training programs were developed and presented to a wide range

of supervisors within the Company. This training is designed to give the supervisors in all fields a comprehensive knowledge of the techniques of management.

Recruitment of staff was intensified during the year, and many promising young university graduates from across the country were placed in the Company. The practice of providing summer employment for university undergraduates and high school graduates planning to attend university continued.

PENSIONS

A new pension plan was introduced for the benefit of salaried employees, effective from the beginning of 1965 which, while entailing an increase in contributions from employees, will result in greatly improved benefits. The Company assumed the total increased cost applicable to past service prior to 1st January, 1965, which amounted to a substantial sum, and has undertaken to share the increased cost in the future. The pension plan was received with enthusiasm, and the Company on its part was pleased to be able to introduce a plan which is in the forefront of corporate pension plans for salaried employees across Canada.

RESEARCH

Wood Products research was centred principally on new particleboard products, and improvements to production flow of plywood. The plant for the manufacture of particleboard, which was subject to considerable research in the previous year, has been completed and is now in production.

In the Pulp and Paper field major emphasis was given to newsprint quality in relation to paper machine speeds. In addition, considerable study was undertaken regarding printing processes for newsprint generally.

As a result of extensive research carried out at Powell River over the last two years, the Company has felt justified in proceeding with the construction and equipment of a pilot plant at Port Alberni for further experimentation and investigation into the use of wood residuals. The sum of \$4 million will be spent for this purpose. This work should be completed within the current year and if successful will represent a major step in the fuller utilization of the raw material resources of the Company.

GENERAL

During the year under review the Company carried out careful studies in regard to the expansion of its pulp and newsprint facilities at Powell River. As a result, at the beginning of this year the Company announced a very important project at Powell River for the construction of a 500-ton per day semi-bleached kraft mill and a 450-ton per day 324" news-

print machine, which will involve an expenditure of approximately \$90 million, including the cost of a new deep-sea wharf with warehouse and ancillary units. The kraft mill will provide all the kraft slush pulp furnish required at Powell River for the manufacture of newsprint, and in addition there will be produced over 50,000 tons annually of semi-bleached pulp for sale on the market. The semi-bleached pulp which is now being shipped from Harmac to Powell River for news furnish will be released and will also become available for market. Thus the total additional market kraft pulp will be approximately 125,000 tons annually. Engineering work is already well advanced, and it is expected construction will commence shortly. The kraft mill and the newsprint machine should be in operation by late 1967 or early 1968.

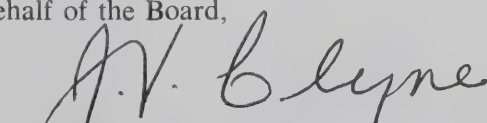
A possible expansion at Kitimat is still under consideration having regard to the volume of timber which the Provincial Minister of Forests has felt able to offer the Company by way of a Tree Farm Licence. The original program which contemplated the construction of a pulp and newsprint operation was based on a larger area of timber, including a portion situated in the Interior of British Columbia. It is expected that a decision will be reached shortly.

There are other possible projects in which the Company is interested. One is in Alberta in an area northwest of Edmonton, where the Company has acquired a lease to a substantial volume of timber, containing a large percentage of northern white spruce, which would be particularly suitable for the manufacture of high-quality kraft sulphate pulp. The other is in Alabama, U.S.A., where consideration is being given to erecting a mill for the manufacture of linerboard.

The general outlook for business in the coming year is good, although due to weather conditions the first few months may be slower than in the previous year. However, costs continue to rise, and the Company will feel the full weight of wage and salary increases, as well as higher stumpage costs and taxes. Thus it will require every effort to maintain in the current year the same level of profit as in 1964.

In closing, tribute is paid to the efforts of all the employees in their contribution to the successful year which the Company has enjoyed.

On behalf of the Board,



Chairman and Chief Executive Officer

Vancouver, Canada
March 25th, 1965

Historical Review

		1964	1963	1962
OPERATING				
Logs	(M FBM)	1,207,872	1,156,260	1,090,170
Lumber	(" ")	915,206	804,102	744,024
Plywood	(M Sq. Ft. $\frac{3}{8}$ ")	374,036	372,054	356,974
Shingles	(Squares)	452,002	449,323	385,423
Newsprint	(Short Tons)	790,850*	689,296	681,448
Pulp	(" ")	483,773	368,152	343,982
Kraft Paper and Paperboard	(" ")	159,683*	159,635	134,825
Fine Paper	(" ")	14,482	12,089	8,429
Corrugated Containers	(M Sq. Ft.)	679,291	665,240	669,523
Wages, Salaries and Employee Benefits		\$89,500,618	\$81,724,493	\$77,526,441
Number of Employees at end of year		14,360	13,430	13,074
FINANCIAL				
Income, all sources		\$413,308,840	\$349,368,343	\$330,669,043
Net Earnings after Income Taxes				
—Amount		\$ 41,440,597	\$ 36,660,068	\$ 36,081,809
—Per Share		\$ 1.99	\$ 1.76	\$ 1.73
Depreciation, Depletion and Amortization		\$ 29,007,429	\$ 22,486,653	\$ 21,514,897
Earnings Retained in Business for the year		\$ 16,425,091	\$ 15,828,813	\$ 20,462,118
Capital Expenditures		\$ 78,439,712	\$ 47,119,433	\$ 37,608,336
Dividends				
Cash				
—Amount		\$ 20,846,255	\$ 20,831,255	\$ 15,619,691
—Per share		\$ 1.00	\$ 1.00	\$.75
Stock				
—Amount		\$ 4,169,251	—	—
—Per Share		\$.20	—	—
Number of Shareholders at end of year †		20,597	18,909	18,962

* Includes tonnage purchased during strike.

† Excluding holders of share warrants.

MacMILLAN, BLOEDEL AND POWELL RIVER LIMITED

Head Office: 1199 W. Pender St., Vancouver 1, B.C.

MILLS, LOGGING CAMPS AND WAREHOUSES

NEWSPRINT

Port Alberni, B.C.
Powell River, B.C.

PULP

Harmac, near Nanaimo, B.C.—*Bleached Sulphate*
Port Alberni, B.C.—*Unbleached Sulphate*
Powell River, B.C.—*Unbleached Sulphite*

SPECIALTY PAPER PRODUCTS

Annacis Island, near New Westminster, B.C.
Fine Papers and Kraft Papers
Burnaby, B.C.
Paperboard for Package Conversion
Industrial and Mill Conversion Stock,
Roofing Felts, Etc.
Paper Bags
Folding and Rigid Boxes
Port Alberni, B.C.
Kraft Paper, Corrugating Medium and
Linerboards
Powell River, B.C.
Corrugating Medium and Coarse Papers

LUMBER

Chemainus, B.C.
Harmac, B.C.
New Westminster, B.C.
Port Alberni, B.C. (Two Mills)
Powell River, B.C.
Vancouver, B.C.

PLYWOOD

Port Alberni, B.C.
Vancouver, B.C.

WOOD PRODUCT SPECIALTIES

Vancouver, B.C.—*Particleboard*
Vancouver, B.C.—*Pres-to-logs*
Port Alberni, B.C. and Vancouver, B.C.—*Shingles*

CONTAINER PLANTS

Manufacturing a wide variety of corrugated
containers

Calgary, Alberta	Regina, Sask.
Edmonton, Alberta	Southall, Middx., U.K.
Hatfield, Herts, U.K.	Weston-super-Mare,
Nelson, Lancs., U.K.	Somerset, U.K.
New Westminster, B.C.	Winnipeg, Manitoba

LOGGING OPERATIONS

Copper Canyon	Northwest Bay
Franklin River	Port Hardy
Half Moon Bay	Queen Charlotte
Harbledown	Shawnigan
Kelsey Bay	Sproat Lake
Kennedy Lake	Squamish
Menzies Bay	Stillwater
Misery Creek	Wakeman
Nanaimo River	Wilson Creek

CANADIAN SALES OFFICES AND WAREHOUSES

Wood Products

EASTERN	WESTERN
Drummondville, Que.	Winnipeg, Man.
Montreal, Que.	Regina, Sask.
Quebec City, Que.	Saskatoon, Sask.
Rimouski, Que.	Edmonton, Alta.
Ottawa, Ont.	Calgary, Alta.
Toronto (Islington), Ont.	Lethbridge, Alta.
London, Ont.	Vancouver, B.C.
Windsor, Ont.	
Fonthill, Ont.	

1961	1960	1959
962,413	957,576	808,272
707,792	699,463	562,637
347,523	299,335	271,844
413,565	385,841	308,787
643,576	656,318	608,499
333,932	327,550	307,386
120,971	115,592	71,108
5,194	1,986	—
606,697	624,897	631,862
\$74,865,659	\$74,369,957	\$63,006,764
13,282	13,108	13,383
\$315,323,217	\$305,291,437	\$251,205,155
\$ 27,395,968	\$ 24,575,651	\$ 23,565,489
\$ 1.32	\$ 1.18	\$ 1.13
\$ 21,903,353	\$ 22,354,087	\$ 20,794,221
\$ 11,776,277	\$ 8,959,663	\$ 9,823,416
\$ 18,613,028	\$ 16,781,622	\$ 15,281,705
\$ 15,619,691	\$ 15,615,988	\$ 13,742,073
\$.75	\$.75	\$.66
—	—	—
—	—	—
18,606	16,728	14,937

ASSETS**December 31**
1964**December 31**
1963**CURRENT ASSETS:**

Cash on hand and in banks	\$ 4,107,375	\$ 4,850,548
Short term investments and deposits (Note 2)	1,025,408	30,668,831
Accounts receivable	58,779,629	46,266,484
Inventories of raw materials, products and supplies, at the lower of cost or market	50,326,318	42,700,558
Prepaid expenses	463,062	954,070
	<u>114,701,792</u>	<u>125,440,491</u>

INVESTMENTS AND OTHER ASSETS:

Investments in subsidiary companies not consolidated (Note 1)	37,484,098	—
Other investments and advances, less allowance for possible loss	5,837,414	5,819,111
Amounts deposited with or assigned to trustee for bondholders	290,000	1,707,454
	<u>43,611,512</u>	<u>7,526,565</u>

FUNDS ALLOCATED FOR CAPITAL PURPOSES:

United States Treasury notes and bonds, at cost (quoted market value in Canadian funds, December 31 1964—\$8,448,707)	7,323,660	9,826,232
Canadian Federal Government bonds and bank deposits, payable in U.S. funds	717,778	744,534
	<u>8,041,438</u>	<u>10,570,766</u>

PROPERTY, PLANT AND EQUIPMENT:

Pulp and paper mills, sawmills, plywood mills, other buildings, machinery and equipment, at cost	407,779,155	397,054,760
Less—		
Accumulated depreciation	236,173,150	217,388,505
	<u>171,606,005</u>	<u>179,666,255</u>
Construction in progress (Notes 3 and 6)	13,848,189	2,252,389
Timber and land, at cost less depletion	79,988,723	34,993,306
Logging roads, at cost less amortization	7,501,429	6,600,113
	<u>272,944,346</u>	<u>223,512,063</u>
	<u>\$439,299,088</u>	<u>\$367,049,885</u>

Consolidated Balance Sheet

December 31 1964 (with comparable balances as at December 31 1963)

LIABILITIES

CURRENT LIABILITIES:

	December 31 1964	December 31 1963
Accounts payable and accrued liabilities	\$ 34,478,667	\$ 28,786,910
Income taxes payable	14,078,383	13,765,238
Minimum payments on non-current liabilities due within one year (Note 4)	2,565,233	1,638,656
	<u>51,122,283</u>	<u>44,190,804</u>

NON-CURRENT LIABILITIES, less minimum payments due within one year:

Bank loan, payable February 28 1966	36,500,000	—
Bonds and debentures of subsidiary companies (Note 5)	30,480,794	32,632,450
Other secured liabilities, payable in minimum annual payments, without interest, to 1974	8,073,355	—
	<u>75,054,149</u>	<u>32,632,450</u>

DEFERRED INCOME TAXES (Note 6)	20,045,895	14,486,830
--	------------	------------

MINORITY INTEREST IN SUBSIDIARY COMPANIES	37,174	130,652
	<u>146,259,501</u>	<u>91,440,736</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL:

Redeemable preference shares with a par value of \$1 each (Note 7)—		
Authorized—10,541,443 shares		
Outstanding—1,005,347 shares	1,005,347	—
Ordinary shares without nominal or par value—		
Authorized—25,000,000 shares		
Outstanding—20,846,255 shares	159,227,000	159,227,000
	<u>160,232,347</u>	<u>159,227,000</u>

EARNINGS RETAINED FOR USE IN THE BUSINESS—

per statement attached	132,807,240	116,382,149
	<u>293,039,587</u>	<u>275,609,149</u>

COMMITMENTS (Note 8)

SIGNED ON BEHALF OF THE BOARD:

J. V. CLYNE, <i>Director</i>	<u>\$439,299,088</u>	<u>\$367,049,885</u>
C. A. SPECHT, <i>Director</i>		

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended December 31 1964 (with a comparable statement for the preceding year)

	<u>1964</u>	<u>1963</u>
Sales and other income:		
Sales of products and services (Note 9)	\$409,564,544	\$346,515,635
Income from investments, including, in 1964, equity in net earnings of subsidiary companies not consolidated (Note 1)	3,011,955	2,022,256
Profit on disposal of short term investments and capital assets	732,341	830,452
	<u>413,308,840</u>	<u>349,368,343</u>
Costs and expenses:		
Cost of sales and services	311,916,230	257,485,500
Selling, general and administrative expenses	19,744,657	17,696,377
Interest on borrowed funds	1,840,487	1,849,249
Directors' fees	8,700	14,700
	<u>333,510,074</u>	<u>277,045,826</u>
Earnings before deducting income taxes	79,798,766	72,322,517
Current income taxes	32,799,104	29,175,548
Earnings before deducting deferred income taxes	46,999,662	43,146,969
Deferred income taxes (Note 6)	5,559,065	6,486,901
Net earnings for the year	<u>\$ 41,440,597</u>	<u>\$ 36,660,068</u>
Costs and expenses include the following:		
Depreciation (Note 6)	\$ 22,856,227	\$ 17,277,770
Depletion	2,936,305	2,432,698
Amortization of logging roads	3,214,897	2,776,185
	<u>\$ 29,007,429</u>	<u>\$ 22,486,653</u>

CONSOLIDATED STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

For the year ended December 31 1964 (with a comparable statement for the preceding year)

	<u>1964</u>	<u>1963</u>
Balance at beginning of year	\$116,382,149	\$100,553,336
Net earnings for the year — per statement attached	41,440,597	36,660,068
	<u>157,822,746</u>	<u>137,213,404</u>
Dividends paid on ordinary shares—		
Cash dividends — \$1 per share	20,846,255	20,831,255
Stock dividends (Note 7)	4,169,251	—
	<u>25,015,506</u>	<u>20,831,255</u>
Balance at end of year (Note 7)	<u>\$132,807,240</u>	<u>\$116,382,149</u>

AUDITORS' REPORT

To the Shareholders, MacMillan, Bloedel and Powell River Limited:

We have examined the consolidated balance sheet of MacMillan, Bloedel and Powell River Limited and its subsidiary companies as at December 31 1964 and the related consolidated statements of earnings and earnings retained for use in the business for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances, except for the accounts of certain subsidiary companies which were examined and reported on by other chartered accountants. The combined net assets and net earnings of these latter companies represent, respectively, substantial proportions of the consolidated net assets and the consolidated net earnings for the year.

The operations of the subsidiary companies not consolidated for the year ended December 31 1964 resulted in combined net earnings which have been reflected in the accompanying

consolidated statement of earnings to the extent of the company's equity therein.

In our opinion, according to the best of our information, the explanations given to us and as shown by the books of those companies whose accounts have been examined by us and the audited accounts of the subsidiary companies reported on by other chartered accountants, the accompanying consolidated balance sheet and related consolidated statements of earnings and earnings retained for use in the business are properly drawn up so as to exhibit a true and correct view of the state of the affairs of MacMillan, Bloedel and Powell River Limited and its subsidiary companies as at December 31 1964 and the results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change to an accepted alternative basis of computing depreciation as described in Note 6 to the consolidated accounts.

Vancouver, B.C.
March 24 1965

PRICE WATERHOUSE & CO.
Chartered Accountants

NOTES TO CONSOLIDATED ANNUAL ACCOUNTS AS AT DECEMBER 31 1964

1. PRINCIPLES OF CONSOLIDATION: The accounts of MacMillan, Bloedel and Powell River Limited have been consolidated with its Canadian and United States subsidiary companies; all inter-company profits, balances and transactions have been eliminated.

The accounts of overseas subsidiary companies in the United Kingdom and elsewhere have not been consolidated, but the equity of MacMillan, Bloedel and Powell River Limited in the net earnings of these subsidiary companies has been reflected in the accompanying consolidated accounts; all inter-company profits have been eliminated.

The subsidiary companies not consolidated were acquired or incorporated during the year, and consist of the following: Hygrade Corrugated Cases Limited; Cooks Corrugated Cases Limited; MacMillan Bloedel Paper Sales Limited; MacMillan Jardine Limited and its subsidiary company.

The investments in these subsidiary companies are carried on the consolidated balance sheet at cost plus the company's share of undistributed net earnings since acquisition. While such carrying value is in excess of the related equity in the net assets at book value, it is not considered that any provision for amortization is required.

Included in accounts receivable and accounts payable as at December 31 1964 are amounts of \$764,116 and \$112,295 respectively, relating to the subsidiary companies not consolidated.

For purposes of the consolidated accounts, current assets and liabilities have been translated into Canadian dollars at the rates of exchange as at December 31, other assets and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred and items entering into net earnings at the average rates for the year.

2. SHORT TERM INVESTMENTS AND DEPOSITS:

	December 31 1964	December 31 1963
Funds on deposit with banks and trust companies	\$ 1,010,521	\$ 632,516
Notes of, and call loans to, Canadian companies	—	23,737,055
Canadian Federal Government bonds, at cost which approximates market	14,887	6,299,260
	<u>\$ 1,025,408</u>	<u>\$30,668,831</u>

3. CONSTRUCTION IN PROGRESS: The company is engaged in the construction of additional plant facilities, estimated to cost approximately \$18,900,000 when completed, of which \$13,848,189 has been recorded in the accounts as at December 31 1964. In addition, expenditures of approximately \$130,000,000 have been approved with respect to other planned capital additions including a major expansion at Powell River, B.C., but no part of this amount has been expended or recorded in the accounts as at December 31 1964.

4. MINIMUM PAYMENTS ON NON-CURRENT LIABILITIES: The minimum payments on non-current liabilities (other than the bank loan) in each of the five years following December 31 1964 are as follows: —

1965	\$2,565,233
1966	2,647,960
1967	2,972,460
1968	2,972,460
1969	2,888,460

5. BONDS AND DEBENTURES OF SUBSIDIARY COMPANIES, less payments due within one year:

	December 31 1964	December 31 1963
MacMillan, Bloedel & Powell River Industries Ltd. —		
Sinking fund debentures:		
5¼ % seven-year debentures Series "A" maturing May 15 1965	\$ —	\$ 1,000,000
5¾ % twenty-year debentures Series "A" maturing May 15 1978	15,137,000	15,548,000
4½ % twenty-year debentures Series "B" maturing May 15 1978 — \$8,500,000		
U.S. at December 31 1964 (Canadian equivalent \$9,124,219) — at amount realized	8,178,594	8,467,250
Carried forward	<u>\$23,315,594</u>	<u>\$25,015,250</u>

MacMillan, Bloedel and Powell River Limited

	December 31 <u>1964</u>	December 31 <u>1963</u>
Brought forward	\$23,315,594	\$25,015,250
Burnaby Paperboard Ltd. —		
First mortgage and collateral trust bonds:		
1955 Series—		
4½ % serial bonds due September 1 1965	—	250,000
4½ % sinking fund bonds due September 1 1975, less purchased for cancellation	4,788,500	4,890,500
1958 Series—		
5¾ % serial bonds due May 15 1965 to 1968	300,000	400,000
5¾ % sinking fund bonds due May 15 1978, less purchased for cancellation	1,916,000	1,916,000
	<u>7,004,500</u>	<u>7,456,500</u>
MacMillan, Bloedel and Powell River (Winnipeg) Limited—		
4% debenture maturing January 1 1970, less held by affiliated company (\$135,000)	160,700	160,700
	<u>\$30,480,794</u>	<u>\$32,632,450</u>

6. DEPRECIATION AND INCOME TAXES: As of January 1 1964 the consolidated companies changed from a diminishing balance basis of recording depreciation to a straight-line basis. The net effect of this change on consolidated net earnings for the year ended December 31 1964 was not significant. As in prior years, no depreciation allowances on construction in progress or other accelerated income tax allowances have been recorded in the accounts.

For income tax purposes, the companies are continuing their policy of claiming the maximum allowable deductions and the resulting reduction of \$5,559,065 (\$6,486,901 in 1963) in income taxes otherwise payable has been carried forward on the consolidated balance sheet as deferred income taxes.

7. SHARE CAPITAL: On April 29 1964 the company increased its authorized capital by \$13,705,347, divided into 13,705,347 3% non-cumulative redeemable preference shares with a par value of \$1 each. On April 30 1964 a stock dividend of 4,169,251 preference shares was declared out of tax-paid undistributed income on the basis of one preference share for every five ordinary shares held. Notice of offer to purchase all outstanding preference shares was given on October 13 1964 and 3,163,904 shares were tendered for purchase and cancellation prior to the closing date of the offer. These shares were then purchased and cancelled out of the proceeds of a debenture, which was in turn redeemed prior to December 31 1964. After giving effect to the foregoing transactions, the authorized and outstanding redeemable preference shares were reduced to 10,541,443 shares and 1,005,347 shares, respectively, and the tax-paid undistributed income amounted to \$9,536,096.

An option (under certain conditions), which was granted on November 4 1963 to the President of the Company to purchase 10,000 ordinary shares at \$27 per share — exercisable up to September 6 1970 — had not yet been exercised as at December 31 1964.

8. COMMITMENTS: In addition to commitments in connection with the new facilities referred to in Note 3, the company is also committed in respect of the following:

- (a) An annual rental of \$145,239 (excluding taxes, insurance and other occupancy expenses payable by the company) up to 1988 under a lease of its head office building.
- (b) The hire of vessels under charter agreements for varying periods up to May 1966 at rentals aggregating \$4,320,000 for the periods of charter.
- (c) The payment of an amount estimated to be not more than \$4,500,000 in connection with a new pension plan for salaried employees. It is planned to pay this amount in equal annual instalments over ten years, commencing in 1965.

9. SALES OF PRODUCTS AND SERVICES: Sales, as in prior years, include the sales of products for account of, or purchased from, other manufacturers on which the margin of gross profit realized by the company is substantially less than that realized on the sale of its own manufactured products.



World Trader



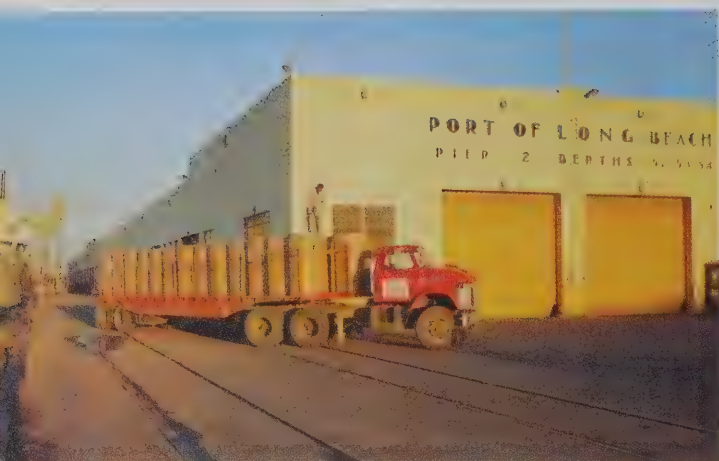
The Company is the largest integrated exporter of forest products in Canada and in 1964 75 percent of our sales were made to foreign countries. MacMillan, Bloedel and Powell River Limited, in common with many large Canadian companies, must have external markets if it is to grow and maintain its large capital investment and payrolls. Therefore, much of its marketing effort is directed at U.S. and overseas sales.

The Company's sales organization circles the globe, not only to develop sales but to service the needs of established customers. MB&PR, for example, maintains subsidiary sales companies in New York and Alabama. MacMillan Jardine Limited serves markets in the Far East, and MacMillan Bloedel Paper Sales Limited is a new subsidiary in London to serve U.K. kraft paper and paperboard customers. In addition to these subsidiary companies MB&PR employs agents to handle its products in many other countries of the world.

External markets account for more than 80 percent of our production of market pulp, 93 percent of our newsprint, 43 percent of our kraft paper and paperboard, 85 percent of our lumber, 23 percent of our plywood, and 86 percent of our cedar shingles.

The Company's market pulp is used by paper makers on six continents to manufacture writing papers, book papers, container boards and even banknotes.

Deck cargo of lumber bound for overseas markets is loaded aboard M.S. Stove Transport at Crofton, B.C. Ship is a charter of the Canadian Transport Company Limited, deepsea shipping subsidiary of MacMillan, Bloedel and Powell River Limited.



By sea from British Columbia, then overland by motor transport, Powell River-Alberni newsprint moves to publishing plants in the Western U.S.

MB&PR newsprint is shipped to 22 countries for newspapers printed in nine languages. Paper specialty exports raise the total to 26 countries. While western North America is the prime market for the Company's newsprint, it is also shipped to publishers in Central and South America, Japan, the United Kingdom and Australia. Two subsidiary companies in the United Kingdom use large quantities of MB&PR kraft paper to fabricate corrugated containers.

The biggest volume markets for MB&PR lumber are the Atlantic coast of the U.S. and the United Kingdom, followed by Japan, but the Company's lumber, plywood and shingles are now sold in 32 other countries as well. This Company's pioneering sales efforts in the late 1920s first developed the U.K. as an important market for B.C. lumber.

Since 1924, MB&PR has operated its own shipping subsidiary, Canadian Transport Company Limited, a common carrier with worldwide connections. Its chartered ships have carried this Company's products in virtually every shipping lane on the globe.

World trade places MB&PR products in direct competition with the giants of the forest industry all over the world. All maintain aggressive marketing organizations and in addition some enjoy substantially lower costs of transportation and labour. To compete with them, MacMillan, Bloedel and Powell River Limited has had to win for itself a reputation for superior product quality, operating efficiency and reliability in fulfilling its contracts.

Right: Powell River-Alberni newsprint is unloaded into a lighter at London docks for distribution to United Kingdom customers.





Men and Machines



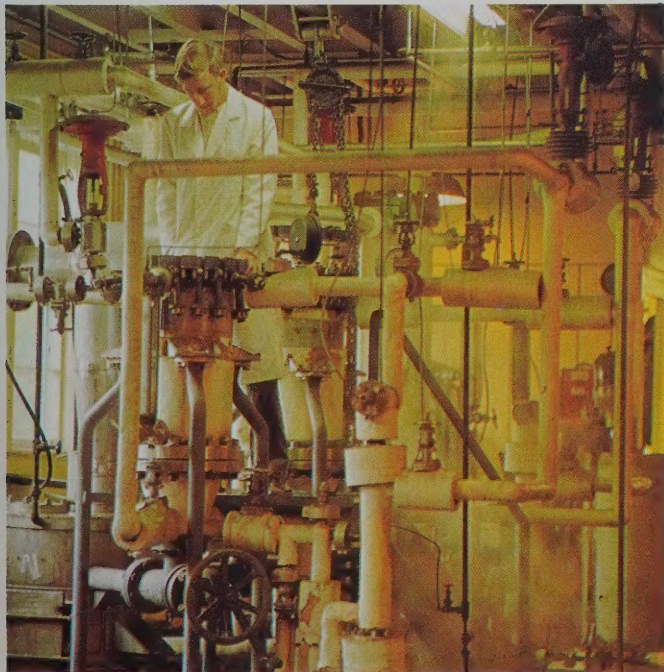
The forests and mills of British Columbia today require men with skills and backgrounds that are far different from those employed by the industry even two decades ago.

In a typical MB&PR logging operation, for example, operators use 225-horsepower mobile loaders, each capable of moving some six hundred tons of logs per day from landing to truck. But these "grapple operators", as they are called, are more men of brains than of brawn because the controls of their machines are delicate in relation to the job.

Grapple operators, paper machine tenders, lathe operators, yarding engineers, and scores of others now employed in the integrated forest industry are men of skill who do not fit the "Paul Bunyan" pattern of yesterday. They are better educated, more skilled, and earn more money. Year-round operations enable them to live in settled communities with their families, rather than in temporary camps.

Introduction of modern equipment has transformed MB&PR, as it has every other integrated forest company in Canada, giving the industry a high rate of capital investment per employee. A log loader, for example, may cost in excess of \$80,000.

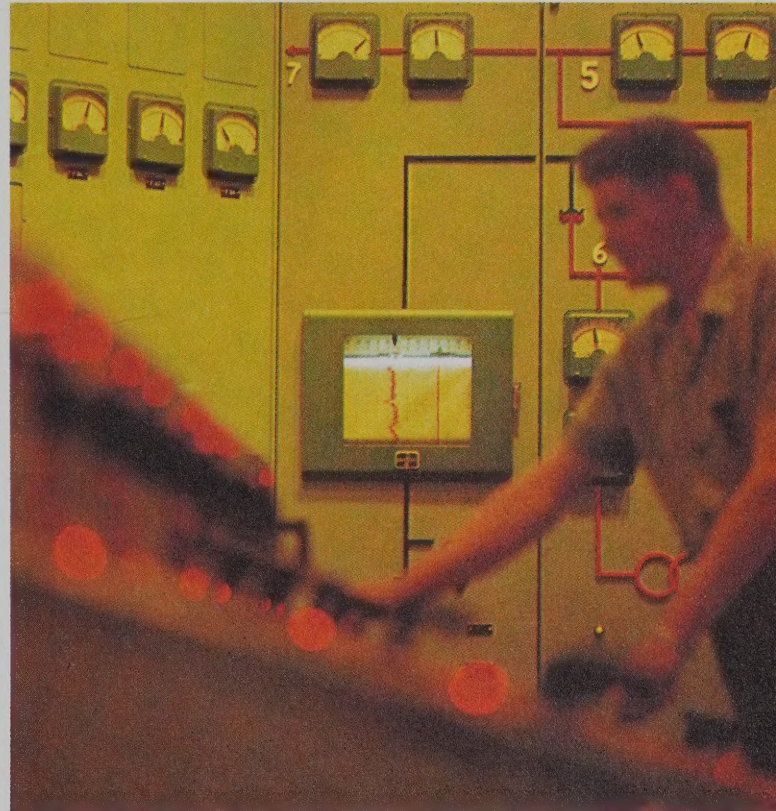
Left: Shield of armour plate glass protects operator at controls of hydraulic machine which strips bark from logs with powerful jets of water.



Technician checks an experimental digester in the Company's newsprint research laboratory.

Right: This experienced "back tender" is sounding a newsprint reel by tapping it with a stick to detect any irregularities that would cause it to wind unevenly.

Below: Power to operate nine newsprint machines passes through this central control room at Powell River.



The colourful high riggers of the past are now supervisors or spar operators. The Company has 90 portable steel spars costing about \$5 million, which have proved to be most successful. Further substantial investment has been made in modern machines for road building, for transport and for fire fighting.

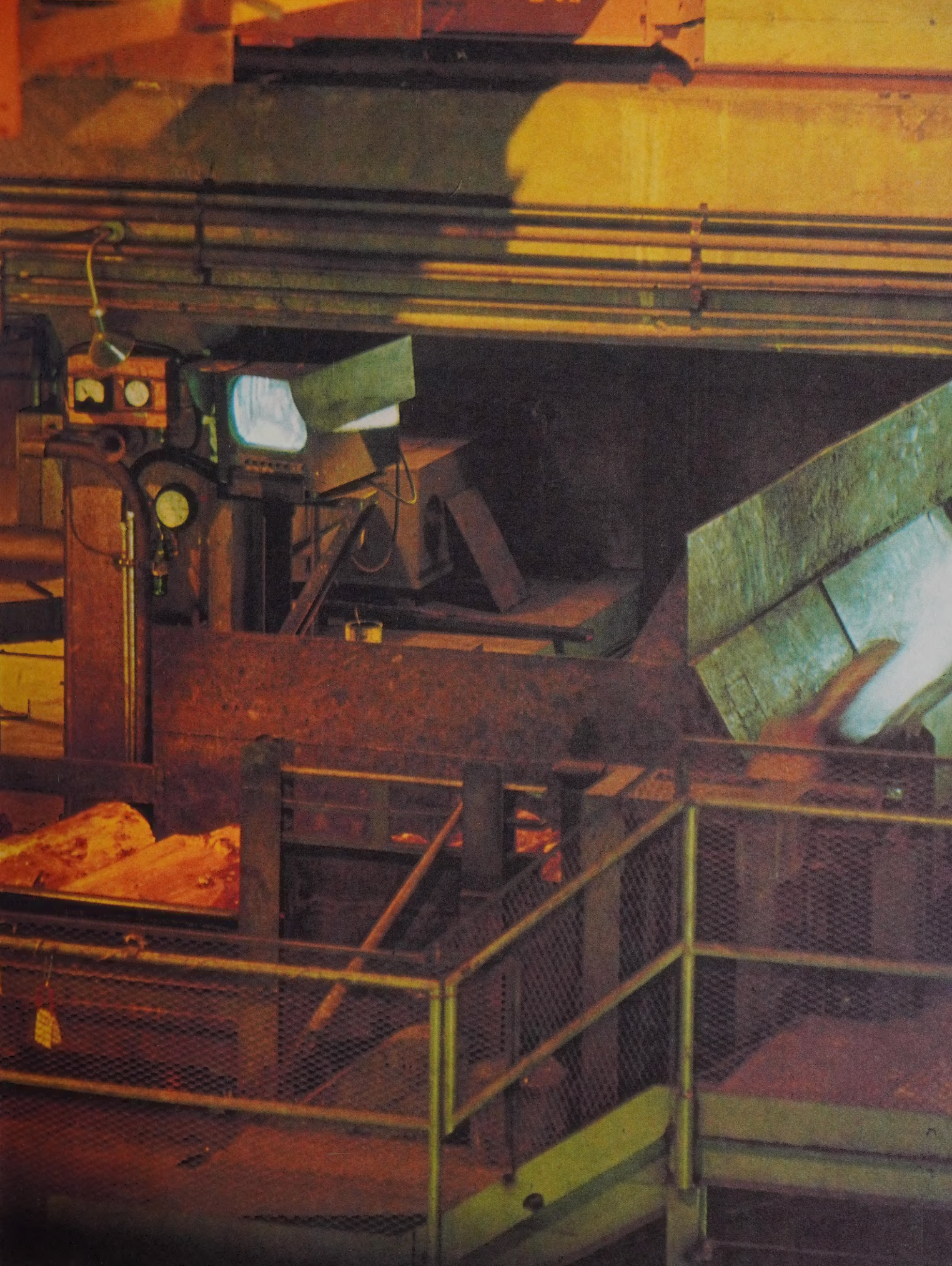
Even costlier is modern mill equipment which demands highly skilled operators with years of training. A new paper machine, for example, including installation and auxiliary equipment, can cost upwards of \$10 million. Mill machinery today is operated by electronic controls; some processes are monitored by closed circuit television. This ever increasing complexity of mill and forest equipment has resulted in much higher educational requirements for the men who operate them.

The result has been greater efficiency, less waste, and safer operations. Forest products today pass through a complex manufacturing process before they reach the consumer, and the men and machines that produce them are very different from those of 20 years ago.

Right: A closed circuit television camera detects blockages on this conveyor belt carrying wood to a grinder for conversion into groundwood pulp. Monitor screen gives operator better control of entire conveyor operation.

Below: "Water bombing" has proved to be an effective fire control technique in B.C. forests. Tanks built into this converted Martin Mars bomber hold 6000 gallons of water.





MacMillan, Bloedel and Powell River Limited

SERVING THE WORLD WITH FOREST PRODUCTS

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